# SGGF II

## Saskatchewan Government Growth Fund II Ltd.

## 2005 Annual Report

Creating economic wealth and

diversification through investment of immigrant

investor capital in Saskatchewan

SASKATCHEWAN GOVERNMENT
GROWTH FUND

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## FUND PROFILE

Saskatchewan Government Growth Fund II Ltd. ("SGGF II" or the "Fund") is a government-administered venture capital fund pursuant to the Immigration Regulations, 1978 (Canada), as amended. It was formed in 1993 to enable immigrant investors to invest in businesses operating in Saskatchewan and facilitate the investors' qualification as Canadian permanent residents under the Immigrant Investor Program.

## FINANCIAL HIGHLIGHTS

- The Fund recorded a loss in 2005 of $102,000 and has an accumulated deficit at December 31, 2005 of $8.6 million.
- Net revenue for the year, including net losses realized on disposal of an investment and an adjustment in the fair value of other investments, totalled $139,000.
- The Fund made a payment of $47,250 in 2005 to each of the 31 investors who had received no payment at the maturity of their Bonds. The Fund has liquidated all of its investments and no further payments to Bondholders will be possible.

## MESSAGE TO INVESTORS

The priority of Saskatchewan Government Growth Fund II Ltd. in 2005 was the liquidation of its two remaining investments. This process, which had been expected to extend through 2006, was completed in 2005.

Arrangements were made in 2004 to liquidate the Fund's investment in Big Sky Farms Inc. ("Big Sky"). Strong cash flows in the hog markets in which Big Sky operates allowed it to complete the repayment in 2005, resulting in total cash proceeds of $2.9 million on the Fund's $1 million investment. The Fund's other remaining investment, Prairie Sulphate Corporation ("PSC"), had encountered operating and financial difficulties and discontinued its operations in 2004. PSC's assets were liquidated at auction in 2004 with the proceeds held in trust, and the proceeds to the Fund will be nominal.

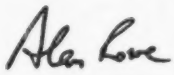
The proceeds of these disposals were used to pay the senior-ranking liabilities of the Fund and then to make a payment of $47,250 to the 31 investors who had not received a payment on their Bond. The Fund has no other sources of cash from which to make further payments to investors.

The Fund incurred a loss in 2005 of $102,000, compared with net income of $999,000 in 2004. The loss in 2005 results from the accrual of $190,000 in interest expense on Bonds payable to investors. The Fund does not have sufficient funds to pay this interest. Net income in 2004 reflected the recognition of the increase in fair value of investments. The accumulated deficit of the Fund is $8.6 million at December 31, 2005 (2004 - $8.5 million).

The Fund's remaining cash resources will be used to pay residual liabilities. It is not expected that any cash will remain after payment of these liabilities; however, any residual cash will be distributed to the 31 investors who received a payment in 2005. Accordingly, this will be the final Annual Report of the Fund to investors.

We regret that some investors have not received a return of their capital invested in the Fund. The Fund's deficit reflects the performance of its investments in small and medium-sized enterprises. Such investments were required under the terms of the Federal Immigrant Investor Program and the Offering Memorandum pursuant to which the Bonds were issued. Such investments typically have higher risk than investments in publicly-traded enterprises. Unfortunately, some of the Fund's investments in this sector performed poorly.

**Roland Hardy**
Chair



**Alan M. Rowe**
President

February 22, 2006

## INVESTMENT PROFILES

*The following are profiles of investments held by SGGF II during 2005 and a description of the companies' operations. The date of the initial investment in each company is noted in parentheses.*

### Big Sky Farms Inc. (January 1996)

Big Sky Farms, headquartered in Humboldt, Saskatchewan, operates a number of farrow-to-finish hog operations in Saskatchewan and Manitoba. These operations are among the largest hog production facilities in Canada. The Fund exercised its right to have Big Sky repurchase its investment of $1 million in common shares of Big Sky. Total proceeds were $2.9 million which were received in 2004 and 2005.

### Prairie Sulphate Corporation (August 1996)

Prairie Sulphate Corporation, which was located at Alsask, Saskatchewan, manufactured potassium sulphate fertilizer, a specialty product used in the care of chloride sensitive plants such as citrus trees, tobacco, and golf course greens. The company experienced financial and operational difficulties and in 2004 was petitioned into bankruptcy. The company's assets were sold at auction with the proceeds held in trust and the Fund will receive only nominal proceeds on its investment.

## Background

Saskatchewan Government Growth Fund II Ltd. ("SGGF II" or the "Fund") is an immigrant investor fund which operates in accordance with the regulations of the federal Immigrant Investor Program (the "IIP"). The Fund began commercial operations in 1993 when it accepted its first subscription deposits. The Fund is financed by subscriptions received from immigrant investors. The objective of the Fund is to invest at least 70% of the proceeds of subscriptions in eligible businesses in Saskatchewan for a five year period as required by the IIP. This allows the immigrant investor to satisfy the investment requirements of the IIP for a Canadian-resident visa.

## Obligations to investors

The Fund's activities are financed by immigrant investors who subscribed for unsecured, subordinated promissory bonds ("Bonds") offered through an Offering Memorandum. The interest rate for the Bonds is 2%. Obligations under the Bonds are subordinate to all other liabilities of the Fund and repayment is dependent on the proceeds on liquidation of investments and all other available liquidity in excess of other liabilities.

The Fund was closed to new subscription applications on May 28, 1995.

At December 31, 2005, obligations to investors totalled $7.49 million, compared with $8.95 million at December 31, 2004. The balance is comprised of 31 Bonds with a remaining principal balance of $202,750 (2004 - $250,000) and 12 Bonds with a remaining principal balance of $100,000.

In 2005, the Fund disposed of its remaining investments. A payment of $47,250 was made to each of the 31 Boldholders whose Bonds had matured but who had previously received no payment. The Fund has no other resources from which to make any further payments to Bondholders.

Total interest expense on obligations to investors and subscription deposits in 2005 was $190,000 (2004 - $196,000). The Fund will not have sufficient resources to pay this interest.

## Investments

The investment policy of the Fund reflects the requirements imposed by both the IIP and the Offering Memorandum. To meet these requirements, the Fund established a target initial investment allocation consisting of:

- a minimum of 70% invested in small and medium-sized enterprises ("SMEs") in Saskatchewan; and
- the balance invested in cash or liquid debt securities.

Investments in SMEs qualify as "eligible businesses" for purposes of the IIP.

Investment and other income in 2005 totalled $91,000, compared with $773,000 in 2004. Revenue in 2004 was almost entirely derived from the recognition of revenue on the settlement of one of the Fund's investments. A loss realized on an investment during the year was less than the provision recorded at December 31, 2004 to reduce carrying values to fair value recorded. This resulted in the recognition of income of $48,000 in 2005. In 2004, realized investment gains exceeded a reduction in the fair value of other investments by $576,000. Net revenue in 2005 was $139,000, compared with $1.3 million in 2004.

**Management**

The Fund is managed by the Saskatchewan Government Growth Fund Management Corporation ("SGGF MC") under a contract which provides for a management fee not to exceed 3.0% of the net assets of the Fund. SGGF MC has contracted administration and investment advisory services from Crown Capital Partners Inc. ("CCPI"), a private, national investment advisor based in Regina, Saskatchewan, and has retained subadvisors to provide investment advisory services. CCPI is paid a monthly fee for its services. The subadvisors are paid a performance fee based on the performance of the investments managed by each of them.

Administration expense for the Fund totalled $38,000 in 2005, compared with $43,000 in 2004.

**Results of operations**

In 2005, the Fund recorded a loss of $102,000, compared with net income of $999,000 in 2004. The loss in 2005 results from the accrual of interest expense recorded on bonds payable to investors, which the Fund will not be able to pay from its cash resources. Net income in 2004 reflected the gain on settlement of one investment held by the Fund, partially offset by expected losses on the ultimate disposal of another investment.

At December 31, 2005, the Fund had an accumulated deficit of $8.6 million compared with a deficit of $8.5 million at December 31, 2004.

**Outlook and risks and uncertainties**

The investment allocation of the Fund which is prescribed by the IIP and Offering Memorandum significantly influences the returns available to the Fund. Investments in SMEs, which must represent a minimum of 70% of the Fund's investments, provide an opportunity for higher returns, but also carry a higher risk of losses than other investment types, and a greater challenge to achieving liquidity at the precise time that Bonds mature.

The significant risks and uncertainties which affect the Fund relate to market risk, credit risk, interest rate risk, and liquidity risk. These risk factors are described in note 9 to the financial statements. The Fund manages these risks to the extent possible; however the factors may affect the ability of the Fund to repay its Bonds at maturity. The Fund has no sources of financing the repayment of its Bonds other than the proceeds received on liquidation of its investments.

Dated as of February 22, 2006.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

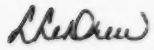
The President and fund manager of the Saskatchewan Government Growth Fund II Ltd. are responsible for management of the Fund. The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include amounts which are based on informed judgement and management estimates. Financial data presented elsewhere in this annual report is consistent with that in the financial statements.

Management's responsibility includes ensuring the integrity and objectivity of financial information. Management maintains an appropriate system of internal accounting and administrative controls, policies and procedures to provide reasonable assurance that all transactions are authorized, financial records are complete and accurate, and assets are safeguarded against loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board has established an Audit Committee to review the Fund's accounting policies and financial statements prior to their presentation to the Board for approval. The Audit Committee also reviews the internal controls of the Fund, and meets regularly with the auditors. The Board has reviewed and approved these financial statements.

Deloitte & Touche LLP, the Fund's independent auditors, have examined the financial statements of the Fund. Their responsibility is to conduct an independent and objective audit and to report on the fairness of presentation of the Fund's financial position, results of operations and cash flows as shown in the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

**Alan M. Rowe, C.A.**
President



**Lori K. Le Drew, C.M.A.**
Controller, Crown Capital Partners Inc.

February 22, 2006

## AUDITORS' REPORT

To the Shareholder of Saskatchewan Government Growth Fund II Ltd.:

We have audited the statement of financial position of Saskatchewan Government Growth Fund II Ltd. as at December 31, 2005, and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

## Saskatchewan Government Growth Fund II Ltd.
## Statement of Financial Position

| December 31 | 2005 | 2004 |
|---|---|---|
| **Assets** | | |
| Cash | $ 76,897 | $ 21,842 |
| Accounts receivable and accrued income | - | 771,895 |
| Other investments (Note 4) | 27,368 | 2,032,797 |
| | $ 104,265 | $ 2,826,534 |
| **Liabilities and Shareholder's Deficiency** | | |
| Accounts payable and accrued liabilities | $ 18,890 | $ 181,859 |
| Notes payable (Note 5) | - | 1,182,972 |
| Commissions payable (Note 6) | 24,500 | 24,500 |
| Accrued interest payable to investors | 1,157,995 | 967,552 |
| Obligations to investors (Note 7) | 7,485,250 | 8,950,000 |
| | 8,686,635 | 11,306,883 |
| Share capital (Note 8) | 1,000 | 1,000 |
| Deficit | (8,583,370) | (8,481,349) |
| | (8,582,370) | (8,480,349) |
| | $ 104,265 | $ 2,826,534 |

See accompanying notes to the financial statements.

On behalf of the Board:

**Roland Hardy**
Director

**Lloyd Boutilier**
Director

**Saskatchewan Government Growth Fund II Ltd.**
**Statement of Operations and Deficit**

| Year ended December 31 | 2005 | 2004 |
|---|---|---|
| **Revenues** | | |
| Income from cash and publicly-traded and short-term investments | $ 16,370 | $ 724 |
| Income from other investments | 74,221 | 129,184 |
| Other income | - | 642,711 |
| | 90,591 | 772,619 |
| Gains realized on disposal of other investments | - | 1,053,440 |
| Losses realized on disposal of other investments | (537,766) | (12,317) |
| Increase (decrease) in fair value of investments | 585,690 | (465,074) |
| | 47,924 | 576,049 |
| Net revenue | 138,515 | 1,348,668 |
| **Expenses** | | |
| Administration (Note 10) | 37,986 | 42,723 |
| Interest on obligations to investors | 190,443 | 196,219 |
| Interest on note payable | 12,107 | 110,802 |
| | 240,536 | 349,744 |
| **(Loss) income for the year** | (102,021) | 998,924 |
| **Deficit, beginning of year** | (8,481,349) | (9,480,273) |
| **Deficit, end of year** | $ (8,583,370) | $ (8,481,349) |

See accompanying notes to the financial statements.

**Saskatchewan Government Growth Fund II Ltd.**
**Statement of Cash Flows**

| Year ended December 31 | 2005 | 2004 |
|---|---|---|
| **Cash flows from operating activities** | | |
| (Loss) income for the year | **$ (102,021)** | $ 998,924 |
| Items not affecting cash: | | |
| (Increase) decrease in fair value of investments | **(585,690)** | 465,074 |
| Net losses (gains) realized on disposal of other investments | **537,766** | (1,041,123) |
| Net change in non-cash balances related to operations (Note 11) | **799,369** | (554,611) |
| Cash flows from operating activities | **649,424** | (131,736) |
| **Cash flows from investing activities** | | |
| Disbursements on investments | **(87)** | (12,317) |
| Repayments of investments | **2,053,440** | - |
| Cash flows from investing activities | **2,053,353** | (12,317) |
| **Cash flows from financing activities** | | |
| Repayment of obligations to investors | **(1,464,750)** | - |
| (Repayment of) proceeds from note payable | **(1,182,972)** | 147,972 |
| Cash flows from financing activities | **(2,647,722)** | 147,972 |
| **Net increase in cash** | **55,055** | 3,919 |
| **Cash, beginning of year** | **21,842** | 17,923 |
| **Cash, end of year** | **$ 76,897** | $ 21,842 |
| **Interest paid during the year** | **$ 131,700** | $ - |

See accompanying notes to the financial statements.

**Saskatchewan Government Growth Fund II Ltd.**
**Notes to Financial Statements**
**December 31, 2005**

## 1. Status of the Corporation

Saskatchewan Government Growth Fund II Ltd. ("SGGF II" or the "Fund") was incorporated in March 1993 under *The Business Corporations Act* (Saskatchewan) and has been accepted as a government administered venture capital fund under the federal government's Immigrant Investor Program ("IIP"). Under this program, the Fund was established to raise $35,000,000 through a bond offering. Each bond is a 2% unsecured, subordinated bond with a principal amount of $250,000 ("Bonds"). The marketing period for the Fund closed on May 28, 1995.

The Confidential Offering Memorandum ("Memorandum") and the IIP prescribe various conditions which qualify an investment as an eligible business, including a requirement that the business be Saskatchewan based and have assets, including assets of associated companies, of less than $35 million.

The Government of Canada and the Government of the Province of Saskatchewan offer no guarantees or assurances on the financial performance of the Fund or of a return of an investor's original investment. Neither government will be liable for any loss or damages suffered by an investor as a result of an investment in the Bonds.

The Fund's only source of revenue is from its investments. The Fund has liquidated substantially all of its investments. There will be insufficient proceeds on liquidation to satisfy all of the Fund's obligations.

## 2. Significant accounting policies

The financial statements have been prepared on a liquidation basis of accounting in accordance with Canadian generally accepted accounting principles whereby assets are carried at their estimated net realizable value, which at December 31, 2005 approximates fair value. The following accounting policies are considered significant:

*Measurement uncertainty*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed quarterly and adjustments are reported in the Statement of Operations and Deficit in the period in which they become known. The primary measurement uncertainty which may affect the reported amounts relates to the determination of fair values of other investments as described on the following page.

**Saskatchewan Government Growth Fund II Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2005**

*Other investments*

Other investments include debt and equity investments in private companies. Other investments are carried at fair value. Income from debt investments ("loans") is recognized as earned except if the investment is impaired. A loan is considered to be impaired if, as a result of deterioration in credit quality, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is usually assumed to be impaired. Other factors that are considered in determining whether a loan is impaired are the overall credit quality of the borrower and the fair value of the underlying security. When a loan becomes impaired, recognition of interest income ceases. Income from equity investments is recognized when received. The change in fair value of other investments during the year is included in the Statement of Operations and Deficit.

Fair values for other debt investments are determined by calculating the present value of the remaining payments under the loans. The discount rate used is based on the expected return at the date of the financial statements for a loan to an investee with similar risk characteristics. The discount rate is comprised of a base risk-free rate based on a Government of Canada bond with equivalent duration, a credit risk premium based on publicly-traded debt with a BBB credit rating, and an additional credit risk and liquidity premium based on the circumstances of the specific investee.

Fair values for other equity investments are determined by management on the basis of the expected realizable value of the investments as at the date of the financial statements if they were disposed of in an orderly manner over a reasonable period of time, discounted at a discount rate which is appropriate at the date of the financial statements to investments in similar companies. There is no active secondary market for many investments which are not publicly-traded, and there is considerable uncertainty and a potentially broad range of outcomes with respect to the future cash flows from these investments. Valuations of such investments are subject to a number of assumptions and uncertainties that may cause actual values realized on disposal to differ materially from the fair value estimated at any particular time.

Generally accepted accounting principles limit the situations where investee companies over which an entity has significant influence are not consolidated. The Fund intends to dispose of its investments in due course; therefore, other investments are not consolidated.

Prior to January 1, 2004, other debt investments were carried at cost net of provisions for investment losses, and other equity investments were carried at the lower of cost and, where a loss in value that is other than temporary has occurred, net realizable value. A provision for investment losses was established for impaired loans to reduce their value to the estimated fair value of the security underlying the loan. If the credit quality of the loan subsequently improved, a provision was reduced or reversed.

**Saskatchewan Government Growth Fund II Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2005**

Other equity investments that were evaluated as possibly being subject to a loss in value were assessed periodically based on appropriate criteria, including past operating results of the investee, financial outlook of the investee, recent capital transactions, and their associated value, between the investee and arm's length parties, and liquidity or going concern problems of the investee. When a decline in the value of an equity investment was no longer considered to be temporary, the investment was written down through a provision and was carried at the written down value until disposal of the equity investment.

### 3. Change in accounting policy in prior year

Effective January 1, 2004, the Fund prospectively adopted "Accounting Guideline 18 – Investment Companies" (AcG-18) of the Canadian Institute of Chartered Accountants. This guideline requires that for qualifying entities, investments held are to be measured and reported at their fair value as described in note 2. Prior to January 1, 2004, investments were carried at cost subject to certain adjustments as described in note 2. The change was implemented on a prospective basis, and the change in fair value recorded on the Statement of Operations and Deficit for the year ended December 31, 2004 represents the difference between the fair value of investments held at December 31, 2004 and either the carrying value, after provisions, of the investment at December 31, 2003 or, in the case of investments acquired in 2004, the cost of the investment.

Gains and losses realized on disposal of investments and the change in fair value of investments in 2004 include $1.5 million representing the excess as at January 1, 2004 of the fair value of investments over the carrying value on the previous basis of accounting.

### 4. Other investments

| | **2005** | 2004 |
|---|---|---|
| Debt instruments | **$ 27,368** | $ 2,618,487 |
| Adjustment to fair value | **-** | (585,690) |
| Carrying value | **$ 27,368** | $ 2,032,797 |

Included in debt instruments is $27,368 (2004 - $565,047) of impaired investments upon which income is not accrued. During the year, $537,766 (2004 - $12,317) of investments and costs have been written off.

**Saskatchewan Government Growth Fund II Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2005**

During the year, investments decreased as follows:

| | 2005 | 2004 |
|---|---|---|
| Balance, beginning of year | **$ 2,032,797** | $ 1,444,431 |
| New investments | **87** | 2,065,757 |
| Book value of divestments | **(2,053,440)** | (1,000,000) |
| Investments and costs written off | **(537,766)** | (12,317) |
| Net change in fair value | **585,690** | (465,074) |
| Balance, end of year | **$ 27,368** | $ 2,032,797 |

## 5. Notes payable

Notes payable consist of:

| | 2005 | 2004 |
|---|---|---|
| Promissory note payable to Saskatchewan Government Growth Fund Ltd., payable on demand, 10% per annum, secured by an investment of the Fund | - | $ 1,035,000 |
| Promissory note payable to Saskatchewan Government Growth Fund Management Corporation, payable on June 30, 2006 or on the liquidation of certain investments, 4% per annum | - | 147,972 |
| | - | $ 1,182,972 |

## 6. Commissions payable

According to the terms of marketing agreements entered into by the Fund, a commission is payable to the independent marketing agent selling the Bonds upon issuance of the investor's immigrant visa.

## 7. Obligations to investors

Obligations to investors represent the Bonds issued to investors of the Fund. The Bonds help to satisfy a portion of investors' visa requirements under the IIP. Interest to the maturity date of Bonds is accrued at an annual rate of 2% from the date of Bond issuance. Interest is accrued on any remaining balance outstanding. The obligation at December 31 is:

| | 2005 | 2004 |
|---|---|---|
| 43 Bonds (2004 – 43 Bonds) | **$ 7,485,250** | $ 8,950,000 |

**Saskatchewan Government Growth Fund II Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2005**

The obligation is comprised of 31 unsecured subordinated Bonds with a remaining principal balance of $202,750 (2004 - $250,000) and 12 Bonds with a remaining principal balance of $100,000.

Obligations under the Bonds are subordinate to all other liabilities of the Fund and repayment is dependent on the proceeds on liquidation of investments and other available liquidity in excess of other liabilities.

Liquidity problems experienced in the investment portfolio during the year 2000 forced the Fund to reduce repayments on Bonds that matured between September and November 2000, and to suspend repayments on Bonds that matured after November 2000. In September 2005, a payment of $47,250 was made to the holders of the 31 Bonds on which payments had been suspended. Interest due on the remaining principal amount of each Bond on which the principal has been partially repaid is accrued.

The Fund has a significant deficit and no resources from which to make any further principal or interest payments on the outstanding Bonds.

## 8. Share capital

The authorized common share capital of the Fund at December 31 is:

Class A common shares – an unlimited number of voting common shares. Holders of these shares are not entitled to receive dividends.

Class B common shares - an unlimited number of non-voting common shares. Holders of these common shares are entitled to receive dividends.

The issued common share capital at December 31 is:

| | **2005** | 2004 |
|---|---|---|
| 1,000 Class A common shares | **$ 1,000** | $ 1,000 |

## 9. Risk management

The Fund's primary business is the raising of capital from immigrant investors and placing these funds in new and expanding Saskatchewan businesses. This investment activity entails exposure to market risk, credit risk, interest rate risk, and liquidity risk. These risk factors may impact upon the Fund's ability to repay its Bonds at maturity.

*Market risk*

Market risk is the risk that the fair value of an investment may be affected by the ability of an investee company to profitably distribute its products. Some of the companies in which the Fund invests are dependent upon a single product or industry. The Fund manages this risk

**Saskatchewan Government Growth Fund II Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2005**

through careful due diligence prior to committing funds to the investment and by diversifying its investments across various industry sectors.

*Credit risk*

Credit risk is the risk that an investee will fail to perform its obligations. Concentration of credit exposure may arise given that the Fund restricts its investments to businesses operating in Saskatchewan and therefore all investments are subject to a similar general economic environment. In addition, changes in commodity prices and foreign currency exchange rates may significantly affect the financial position of some investees. The Fund conducts thorough due diligence prior to committing to an investment and actively monitors the financial health of its investees on an on-going basis.

*Interest rate risk*

Interest rate risk is the risk that the Fund's earnings will be affected by fluctuations in interest rates. The Fund manages this risk through carefully monitoring and matching the duration of its investments with the duration of its obligations to investors.

*Liquidity risk*

Liquidity risk is the risk that the Fund will encounter difficulty in liquidating its investments at the time it is required to repay its Bonds. Due to the nature of some of the Fund's investments, the timing of cash flows from its investments may not exactly match the payments owing under the Fund's Bonds. The Fund carefully monitors the duration of its investments. However, timing differences may require the Fund to reduce or delay the payments owing on Bonds at maturity.

*Fair value – obligations to investors*

No secondary market for the Bonds exists. Due to the unique features associated with the Bonds, the calculation of a fair value with appropriate reliability is impractical. The risk factors that affect the fair value of investments, as described above, also affect the fair value of obligations to investors. Repayment of these obligations at maturity is dependent upon the value and liquidity of investments at that time.

**10. Administration**

Under the terms of a management agreement between the Fund and Saskatchewan Government Growth Fund Management Corporation ("SGGF Management Corporation"), SGGF Management Corporation administers the assets of the Fund with the assistance of a manager that performs fund administration and investment management together with several investment subadvisors. SGGF Management Corporation does not guarantee the financial performance of the Fund. All services provided to the Fund are charged on a fee for service basis. The costs billed to the Fund by SGGF Management Corporation are as follows:

**Saskatchewan Government Growth Fund II Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2005**

| | 2005 | 2004 |
|---|---|---|
| Manager's fees | $ 24,177 | $ 26,969 |
| General administration | 1,451 | 2,158 |
| Directors' fees and expenses | 4,854 | 5,713 |
| Legal and professional | 7,504 | 7,883 |
| | $ 37,986 | $ 42,723 |

**11. Net change in non-cash balances related to operations**

| | 2005 | 2004 |
|---|---|---|
| Accounts receivable and accrued income | $ 771,895 | $ (771,895) |
| Accounts payable and accrued liabilities | (162,969) | 21,065 |
| Accrued interest payable to investors | 190,443 | 196,219 |
| | $ 799,369 | $ (554,611) |

**12. Income taxes**

A provincial Crown corporation, SGGF Management Corporation, owns all of the issued shares of the Fund. Therefore, the Fund is exempt from income taxes.

**13. Related party transactions**

Included in these financial statements are amounts resulting from transactions with SGGF Management Corporation pursuant to a management agreement referred to in Note 10. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms. Total fees charged to the Fund by SGGF Management Corporation amounted to $37,986 (2004 - $42,723). Total fees payable to SGGF Management Corporation at December 31, 2005, and included in the above, are $3,851 (2004 - $47,228).

As stated in Note 5, the Fund had issued notes payable to Saskatchewan Government Growth Fund Ltd. ("SGGF Ltd."), a wholly-owned subsidiary of SGGF Management Corporation, and to SGGF Management Corporation. Total interest charged by SGGF Ltd. during the year was $12,037 (2004 - $109,298). Total interest payable to SGGF Ltd. at December 31, 2004 was $118,088. Total interest charged by SGGF Management Corporation during the year was $71 (2004 - $1,504). The total interest payable to SGGF Management Corporation at December 31, 2004 was $1,504.

**Saskatchewan Government Growth Fund II Ltd.**
**Notes to Financial Statements (continued)**
**December 31, 2005**

## 14. Contingencies

The Fund indemnifies contracted parties in connection with services provided. From time to time the Fund or such parties may be defendants in litigation. It is not possible to predict the ultimate outcome of any outstanding litigation or estimate any costs which might result.

## FIVE YEAR FINANCIAL SUMMARY

**Financial Position (thousands of dollars)**

| December 31 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash | $ 77 | 22 | 18 | 740 | 732 |
| Other investments | 27 | 2,033 | 1,444 | 2,174 | 3,534 |
| Other assets | - | 772 | - | 2 | 32 |
| Total assets | $ 104 | 2,827 | 1,462 | 2,916 | 4,298 |
| Liabilities and Deficit | | | | | |
| Obligations to investors | $ 8,643 | 9,918 | 9,721 | 9,529 | 9,340 |
| Other liabilities | 43 | 1,389 | 1,220 | 2,226 | 3,899 |
| Deficit | (8,582) | (8,480) | (9,479) | (8,839) | (8,941) |
| Total liabilities and deficit | $ 104 | 2,827 | 1,462 | 2,916 | 4,298 |

**Operating Results (thousands of dollars)**

| Years ended December 31 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Revenues | | | | | |
| Investment income | $ 74 | 130 | - | 87 | 286 |
| Interest from cash and publicly-traded and short-term investments | 17 | - | 21 | 37 | 38 |
| Other income | - | 643 | - | - | 5 |
| | 91 | 773 | 21 | 124 | 329 |
| (Loss) gain realized on disposal of investments | (538) | 1,041 | - | - | - |
| Adjustment to fair value | 586 | (465) | | | |
| Provision for losses on investments | | | (911) | (29) | (2,820) |
| Net revenue | 139 | 1,349 | (890) | 95 | (2,491) |
| Expenses | | | | | |
| Administration | 38 | 43 | (545) | (372) | 274 |
| Financing | 203 | 307 | 296 | 365 | 394 |
| Total expenses | 241 | 350 | (249) | (7) | 668 |
| Net (loss) income | $ (102) | 999 | (641) | 102 | (3,159) |

Note: Effective January 1, 2004, the Fund changed its accounting policy on a prospective basis to measure and report investments at their fair value.

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Lloyd Boutilier
Businessman
Regina, Saskatchewan

Darrel Cunningham
Farmer
Lintlaw, Saskatchewan

Harwood Davies
Businessman
Watrous, Saskatchewan

Gordon Mertler
Businessman
Regina, Saskatchewan

**Fund Manager**
Saskatchewan Government Growth Fund Management Corporation, which has retained Crown Capital Partners Inc. to provide management services

Crown Capital Partners Inc.
Alan M. Rowe, C.A., Partner responsible for SGGF
Christopher J. Anderson, C.F.A., Partner
Brent Hughes, C.F.A., Partner
Brian A. Johnson, C.F.A., Partner
Christopher A. Johnson, C.F.A., C.B.V., Managing Partner

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